GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA

UNSTARRED QUESTION NO:792
ANSWERED ON:21.02.2003
DEFAULT ON STATE GOVERNMENT GUARANTEED BONDS
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Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) whether defaults on State guaranteed bonds are piling up alarmingly as reported in the Indian Express dated January 1, 2003 under caption `Defaults mounts on State backed bonds;

(b) if so, whether as per banking industry assessments default have crossed Rs. 2500 crore mark on September,2002;

(c) whether banks have urged RBI to look into the matter;and

(d) if so, the steps taken or being taken by Government to minimize the default on State backed bonds?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO VITHOBA ADSUL):

(a) and (b) State Government guaranteed bonds can be categorised into SLR bonds and Non-SLR bonds. According to Reserve Bank of India (RBI), as on 30th June, 2002, State Governments had defaulted to the extent of Rs. 817.04 crores in respect of SLR bonds. The default in respect of Non-SLR bonds, was to the tune of Rs. 3122.45 crores as at the end of December. 2002.

(c) and (d) Banks and RBI take up the matter with State Governments to sensitize them for honouring their guarantees. RBI had constituted a Technical Committee on State Government Guarantees in February. 1999 and later constituted a Group to Assess the Fiscal Risk of State Government Guarantees and to formuiate effective measures to deal with the issue of rising State Government guarantees. State Governments have also been encouraged to constitute Guarantee Redemption Fund and impose ceiling on such guarantees.